

Message Text

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PASS AGRICULTURE FOR ASSISTANT SECRETARY BELL AND DONALD J. NOVOTNY

E.O. 11652: N/A

TAGS: EAGR, ETRD, EEC

SUBJECT: A NEW EC GRAIN PRICE STRUCTURE?

REF: EC BRUSSELS 06661

1. BEGIN SUMMARY: THE EC COMMISSION'S GRAIN DIVISION HAS DRAFTED A WORKING PAPER WHICH WOULD (A) SIGNIFICANTLY INCREASE THE SUPPORT PRICE FOR CORN, (B) SET A SINGLE SUPPORT PRICE FOR CORN, BARLEY AND RYE, (AND POSSIBLY FEED WHEAT) BASED ON A "MODERATE" INCREASE IN THE BARLEY PRICE, AND (C) RELY BASICALLY ON "MARKET FORCES," BOOSTED BY INCREASED PROTECTION AGAINST IMPORTS, TO SET THE MARKET PRICE FOR QUALITY WHEAT. THE DESIRED NET EFFECT OF THESE MODIFICATIONS

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WOULD BE TO INCREASE THE COMMUNITY'S SELF-SUFFICIENCY IN FEEDGRAINS, DISCOURAGE THE PRODUCTION OF HIGH-YIELD, LOW-QUALITY WHEAT, POSSIBLY BY LOWERING ITS PRICE FROM THE CURRENT WHEAT PRICE LEVEL, AND ENCOURAGE THE PRODUCTION OF QUALITY WHEAT. WE EXPECT

SOME VARIATION OF THIS CONCEPT TO BE APPROVED BY THE COMMISSION ON DECEMBER 10 AND SUBMITTED ORALLY TO THE COUNCIL OF AGRICULTURAL MINISTERS ON DECEMBER 15. FINAL APPROVAL BY THE AGRICULTURAL MINISTERS WOULD COME AT A LATER MEETING. IN ANY CASE, SUCH A RADICAL OVERHAUL WOULD HAVE TO BE STAGED OVER MORE THAN ONE YEAR. END SUMMARY.

2. WE HAD AN OPPORTUNITY TO DISCUSS FORTHCOMING CHANGES IN EC GRAIN PRICES WITH WAECHTER, EC COMMISSION DIRECTOR OF CROP MARKETS. FOLLOWING ARE THE HIGHLIGHTS OF THIS DISCUSSION:

3. WAECHTER'S GRAIN DIVISION HAS DRAWN UP A DRAFT WORKING PAPER WHICH WOULD SIGNIFICANTLY ALTER THE PRICE RELATIONSHIP FOR GRAINS IN THE COMMUNITY. THE PLAN WOULD (A) ESTABLISH A SINGLE INTERVENTION PRICE FOR ALL FEEDGRAINS, POSSIBLY INCLUDING FEED QUALITY WHEAT, AND ALIGN THIS PRICE ON THE BARLEY INTERVENTION PRICE, AND (B) SUBSTANTIALLY INCREASE THE PRICE OF CORN RELATIVE TO OTHER GRAINS, BETTER REFLECTING ITS RELATIVE ENERGY VALUE. WITH REGARD TO BAKING-QUALITY SOFT WHEATS, THE PROPOSAL WOULD ELIMINATE MANDATORY INTERVENTION AND ESTABLISH A SEPARATE PRICE STRUCTURE WITH TARGET AND THRESHOLD PRICES SUBSTANTIALLY ABOVE THAT OF FEEDGRAINS. THE GRAIN DIVISION'S PROPOSAL IS OSTENSIBLY GENERATED BY THE RECOMMENDATION OF THE JULY 21-22 COUNCIL OF AGRICULTURAL MINISTERS (REFTEL) THAT SUPPORT PRICES FOR FEED WHEAT IN 1976-77 NOT BE HIGHER THAN THE FEEDGRAIN SUPPORT PRICE AND CORRESPOND TO ITS FEED VALUE. IN FACT, THE COMMISSION HAS USED THIS RECOMMENDATION AS A VEHICLE BY WHICH TO INTRODUCE THE IMPROVEMENTS IN THE ENTIRE EC GRAIN PRICE STRUCTURE THAT THEY HAVE BEEN SEEKING FOR YEARS.

4. WAECHTER SAID THAT THE COMMISSION, THE FARMER ORGANIZATIONS, TRADE UNIONS AND CONSUMER GROUPS, AS WELL AS THE MEMBER STATE GOVERNMENTS THEMSELVES REALIZE THAT THE PRICE INCREASE THIS YEAR MUST BE MODERATE AND NOT EXACERBATE INFLATIONARY PRESSURES IN THE COMMUNITY. ALTHOUGH HE WOULD NOT QUOTE A PRECISE FIGURE, HE INDICATED THAT THE COMMISSION WOULD PROPOSE A "MODERATE" INCREASE IN THE BARLEY PRICE OF 5-7 PERCENT, AND LIMITED OFFICIAL USE

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PROBABLY CLOSER TO 5 PERCENT. FEEDGRAIN PRICES ALIGNED ON A CURRENT BARLEY INTERVENTION PRICE INCREASED BY 6 PERCENT WOULD RESULT IN THE FOLLOWING FEEDGRAIN PRICE STRUCTURE:

INTERVENTION PRICES (1)
(UNITS OF ACCOUNT)

	1975/76	HYPOTHETICAL 1976/77	PERCENT CHANGE
FEED WHEAT	125.93	117.62(2)	- 6.6
BARLEY	110.96	117.62	PLUS 6.0
CORN	103.43	117.62	PLUS 13.7

RYE 119.76 117.62 - 1.8

1 - ASSUMING THAT THE BASE INTERVENTION PRICE FOR BARLEY INCREASES 6 PERCENT.

2 - THE COMMISSIONS'S GRAIN DIVISION HAS NOT YET DECIDED WHETHER TO APPLY THE BASE FEEDGRAIN INTERVENTION PRICE TO FEED WHEAT. IN ANY EVENT, NO TARGET PRICE IS NECSESSARY FOR FEED WHEATS, SINCE THERE ARE NO IMPORTS OF IT.

TARGET PRICES 3

	1975/76	HYPOTHETICAL 1976/77	PERCENT CHANGE
BARLEY	126.99	142.32	PLUS 12.1
CORN	126.41	142.32	PLUS 12.6
RYE	128.74	142.32	PLUS 10.5

3 - ASSUMING, AS PROPOSED BY THE COMMISSION FOR 1976/77, AN IDENTICAL PRICE SPREAD FOR ALL FEEDGRAINS WITH TARGET PRICES 1.21 TIMES INTERVENTION PRICES.

5. THE MOST NOTABLE FEATURE OF THIS NEW FEEDGRAIN PRICE RELATIONSHIP IS THE MARKED INCREASE OF 13.7 PERCENT IN THE SUPPORT PRICE FOR CORN. COMBINED WITH THE REDUCTION IN THE FEED WHEAT PRICE, THIS WOULD ENCOURAGE CORN MARKET PRICES TO REFLECT MORE NEARLY THE FEED VALUE OF CORN, WHICH HAS GENERALLY BEEN UNDERVALUED RELATIVE TO MARKET PRICES FOR OTHER FEEDGRAINS BECAUSE OF THE EFFECT OF THE PRESENT EC PRICING SYSTEM. THE INTERVENTION PRICE-TARGET PRICE SPREAD, IN THE COMMISSION'S VIEW, WOULD THEN PERMIT MARKET PRICES FOR FEEDGRAINS TO ADJUST LIMITED OFFICIAL USE
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TO THEIR TRUE RELATIVE LEVELS. OUR TABLE BELOW SHOWS WHAT THESE MARKET PRICES WOULD BE USING THE COMMISSION'S CALCULATIONS OF AVERAGE FARM-WHOLESALE MARKETING SPREADS:

	HYPOTHETICAL INTERVENTION PRICE	WHOLESALE PRICE	MARKET PRICE	HYPOTHETICAL TARGET PRICE
	------(U.A. PER METRIC TON)-----			
FEED WHEAT	117.62	124.68	135.68	142.32
BARLEY	117.62	119.97	130.97	142.32
CORN	117.62	129.38	140.38	142.32
RYE	117.62	122.32	133.32	142.32

6. THE COMMISSION'S DRAFT WORKING PAPER PROPOSES A QUALITY WHEAT TARGET PRICE FIXED AT ABOUT 1.31 TIMES THE HYPOTHETICAL BASE INTERVENTION PRICE FOR FEEDGRAINS, OR ABOUT 154 U.A. PER METRIC TON, THE GHIGHEST OF ALL TARGET PRICES. THIS WOULD MEAN AN INCREASE OF ABOUT 10.4 PERCENT OVER THE PRESENT TARGET PRICE OF 139.44 U.A PER METRIC TON. AGAIN BASED ON THE COMMISSION'S ESTIMATES AND ON AN AVERAGE 2.83 U.A. PER-METRIC-TON SPREAD BETWEEN THE THRESHOLD AND TARGET PRICES, THE NEW QUALITY WHEAT MARKET PRICE STRUCTURE WOULD

BE AS FOLLOWS:

PRICE EX-FARM 141.14
THRESHOLD PRICE 151.17
TARGET PRICE 154.00

NO BASE INTERVENTION PRICE IS PROPOSED FOR QUALITY WHEAT BECAUSE THERE

IS AS YET NO RAPID TEST FOR DISTINGUISHING BETWEEN FEED WHEAT AND QUALITY WHEAT. THE ONLY DEPENDABLE TEST IS THE STANDARD, EMPIRICAL ONE PRESENTLY IN USE IN THE MILLING INDUSTRY, AND IT IS NOT PRACTICAL FOR INTERVENTION PURPOSES. THE COMMISSION'S DRAFT WORKING PAPER CONCLUDES THAT THE MARKET PRICE OF QUALITY WHEAT WILL BE BID UP TO A POINT NEAR ITS THRESHOLD PRICE, ALL OTHER THINGS BEING EQUAL.

7. ALTHOUGH THE DOCUMENT PROPOSES TO ABOLISH MANDATORY INTERVENTION FOR QUALITY WHEAT, IT WOULD RETAIN THE SYSTEM OF OPTIONAL PREVENTIVE INTERVENTION UNDER INTERVENTION "B" AND CREATE A NEW INTERVENTION "C." THE LATTER WOULD AUTHORIZE THE COMMISSION ITSELF TO UNDERTAKE SUPPORT OPERATIONS OR THE INTERVENTION AGENCIES TO DO SO ACTING AS AGENTS FOR THE COMMISSION.

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8. A COROLLARY FEATURE OF THIS PROPOSED AVERHAUL OF THE WHEAT CAP WOULD BE THE ELIMINATION OF REGIONALIZATION OF WHEAT PRICES. THE COMMISSION PRESENTLY VIEWS WHEAT PRICE REGIONALIZATION AS CUMBERSOME AND AN ADMINISTRATIVE HEADACHE. BUT THE EXPECTED INCREASE IN THE MARKET PRICE FOR QUALITY WHEAT UNDER THIS SCHEME WOULD ELIMINATE THE NEED FOR PRICE REGIONALIZATION, WHICH THE COMMUNITY DESIGNED TO EFFECT MODERATE PRICE INCREASES IN CERTAIN DISADVANTAGED AREAS.

9. COMMENT: WE UNDERSTAND THAT LARDINOIS HAS NOT YET GIVEN HIS BLESSING TO THE GRAIN DIVISION'S WORKING PAPER, THOUGH HE REPORTEDLY FAVORS ITS BROAD AIMS. HE IS RETICENT BECAUSE OF THE DIFFICULTY HE SEES IN SELLING THE PLAN POLITICALLY. OUR SOURCES IN THE GRAIN DIVISION STATE THAT THE PROPOSED LARGE INCREASE IN THE SUPPORT PRICE FOR CORN SHOULD ENCOURAGE FRANOSWIKBZCCEPT ELIMINATION OF MANDATORY INTERVENTION FOR WHEAT. IF SO, THIS WOULD REMOVE A MAJOR POLITICAL OBSTACLE. FROM THE SAME SOURCES ALSO ACKNOWLEDGE THAT THE ENCOURAGEMENT OF COMMUNITY CORN PRODUCTION VIA SIGNIFICANTLY HIGHER PRICES, AS WELL AS THE CHANGE IN THE PRICE RELATIONSHIPS BETWEEN CORN AND OTHER FEEDGRAIN (PARTICULARLY FEED WHEAT) UNDOUBTEDLY WOULD HAVE A DAMPENING EFFECT ON EC TAKINGS OF US CORN. ON THE OTHER HAND, THEY EXPECT THAT INCREASED CORN ACREAGE WOULD DISPLACE WHEAT ACREAGE AND WOULD RESULT IN A COMPENSATORY INCREASE IN EC TAKINGS OF US QUALITY WHEAT.

11. WE BELIEVE THAT THE COMMISSION WILL APPROVE IN PRINCIPLE

SOME VARIATION OF THE DRAFT WORKING PAPER DESCRIBED ABOVE;
HOWEVER, WAECHTER SAID THAT SUCH A RADICAL OVERHAUL OF THE
COMMUNITY'S GRAIN SUPPORT SYSTEM PROBABLY WILL NOT BE STAGED
WITHIN ONE YEAR. IMPLEMENTATION OF THE SCHEME, OR ONE SIMILAR
TO IT, PROBABLY WOULD BE PHASED OVER TWO TO FOUR YEARS.

12. THE COMMISSION IS SCHEDULED TO APPROVE SOME FORM OF THE
GRAIN PRICE PROPOSAL ON DECEMBER 10 AND SUBMIT IT TO COREPER
ON DECEMBER 11. THE PROPOSAL IS SCHEDULED TO BE PRESENTED TO
THE COUNCIL OF AGRICULTURAL MINISTERS "ORALLY" ON DECEMBER 15
FOR FURTHER CONSIDERATION AT ANOTHER MEETING. END COMMENT.

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